



ASX/Media Release

MACQUARIE GROUP 2016 ANNUAL GENERAL MEETING AND FIRST QUARTER FY17 UPDATE

Key points:

- **Operating groups performing in line with expectations**
- **1Q17 operating group contribution¹ down on a strong pcp and up on prior quarter**
- **Financial position comfortably exceeds regulatory requirements²**
 - **Group capital surplus of \$A3.5 billion**
 - **Bank CET1 ratio 10.3% (Harmonised: 12.1%); Leverage ratio 5.3% (Harmonised: 6.2%); LCR 166%³**
- **Continue to expect FY17 result for the Group to be broadly in line with FY16**

SYDNEY, 28 July 2016 – Macquarie Group (ASX: MQG; ADR: MQBKY) Managing Director and Chief Executive Officer, Nicholas Moore, said today that performance from Macquarie's operating groups was in line with expectations, with the first quarter 2017 financial year's (1Q17) contribution down on a strong first quarter of the 2016 financial year (1Q16) and up on the prior quarter (4Q16).

Speaking ahead of Macquarie's 2016 Annual General Meeting, Mr Moore said: "Macquarie's annuity-style businesses⁴, which represent more than 70 per cent of the Groups' performance⁵, continued to perform well. Macquarie Asset Management (MAM) benefited from higher base fees, while performance fees and asset disposals were lower compared to a strong 1Q16. The AWAS and Esanda acquisitions in Corporate and Asset Finance (CAF) have been successfully integrated and are performing in line with expectations, partially offsetting the strong loan repayment income in the prior corresponding period (pcp). Growth continued across Banking and Financial Services' (BFS) mortgages, business banking and deposit books during the quarter."

"Macquarie's capital markets facing businesses⁴ experienced mixed trading conditions with subdued market conditions in Macquarie Capital and Macquarie Securities Group (MSG) as previously foreshadowed, particularly compared to a strong pcp. Commodities and Financial Markets (CFM), however, experienced stronger activity, reflecting resilient trading across most of its businesses."

There were no significant one-off items in the quarter.

Macquarie Group's financial position comfortably exceeds APRA's Basel III regulatory requirements², with Group capital surplus of \$A3.5 billion at 30 June 2016, which was down from \$A3.9 billion at 31 March 2016. The Bank Group APRA Basel III Common Equity Tier 1 capital ratio was 10.3 per cent (Harmonised: 12.1 per

¹ Where referenced in this document, 1Q17 net profit contribution is management accounting profit before unallocated corporate costs, profit share, income tax and period end reviews.

² Where referenced in this document, regulatory requirements refer to the APRA implementation of the Basel framework. Group capital surplus is calculated at 8.5 per cent Risk Weighted Assets (RWA) including the capital conservation buffer (CCB), per APRA Prudential Standard 110. The APRA Basel III Group capital surplus is \$A4.8 billion calculated at 7.0 per cent RWA, per the internal minimum Tier 1 ratio of the Bank Group. CET1 ratio includes CCB.

³ Average LCR for June 2016 quarter includes April, May and June month-end observations.

⁴ Annuity-style businesses consists of Macquarie Asset Management, Corporate and Asset Finance, and Banking and Financial Services. Capital markets facing businesses consists of Macquarie Securities, Macquarie Capital, and Commodities and Financial Markets.

⁵ Based on FY16 net profit contribution from operating groups.

cent) at 30 June 2016, down from 10.7 per cent at 31 March 2016, following payment of the final FY16 dividend and the FY16 Macquarie Group Employee Retained Equity Plan (MEREP) buying requirement. The Bank Group's APRA leverage ratio was 5.3 per cent (Harmonised: 6.2 per cent) and average LCR was 166 per cent³.

The acquisition of Macquarie shares required for the financial year ended 31 March 2016 (FY16) profit share and promotion awards under the MEREP was completed in June 2016. A total of approximately \$A433 million of Macquarie shares were purchased: \$A308 million off-market under arrangements announced to the market on 6 May 2016 and \$A125 million on-market. The shares were acquired at a weighted average purchase price of \$A71.55 per share.

First quarter business highlights

In commenting on the Group's start to the 2017 financial year (FY17), Mr Moore noted the following highlights:

- **Macquarie Asset Management (MAM)** had \$A496.9 billion in assets under management at 30 June 2016, up four per cent on 31 March 2016 due to market movements and the impact of foreign exchange. 1Q17 included performance fees from several funds including Macquarie Atlas Roads and Macquarie Korea Infrastructure Fund. During the quarter, Macquarie Infrastructure and Real Assets invested equity of \$A2.8 billion across seven acquisitions and five follow-on investments in eight countries. Macquarie Investment Management was awarded over \$A600 million in new institutional mandates across seven strategies in three countries and Macquarie Specialised Investment Solutions raised over \$A1 billion for Australian principal protected investments and specialist funds.
- **Corporate and Asset Finance's (CAF)** asset and loan portfolio of \$A39.0 billion at 30 June 2016, remained broadly in line with 31 March 2016. The Esanda dealer finance portfolio, consisting of over 300,000 contracts, was successfully migrated during the quarter. In addition, \$A0.9 billion of motor vehicle and equipment leases and loans were securitised.
- **Banking and Financial Services (BFS)** had total BFS deposits⁶ of \$A41.4 billion at 30 June 2016, up two per cent on 31 March 2016. The Australian mortgage portfolio of \$A28.8 billion increased one per cent on 31 March 2016, funds on platform⁷ of \$A59.9 billion increased three per cent on 31 March 2016 and the business banking loan portfolio of \$A6.1 billion increased three per cent on 31 March 2016.
- **Macquarie Securities Group (MSG)** experienced lower client volumes, particularly in Asia. ECM and Derivatives trading were also lower. Asian trading opportunities in pcp were not repeated.
- **Macquarie Capital's** client activity was impacted by subdued market conditions during the quarter. 108 deals were completed at \$A28 billion in 1Q17, down on 1Q16 and up on 4Q16 (by number and value). Principal realisations during the quarter were in line with expectations. Macquarie Capital was ranked No.1 for announced and completed M&A deals⁸ and No.1 for completed ECM deals⁸ in ANZ.
- **Commodities and Financial Markets (CFM)** experienced solid customer and trading activity in energy markets, primarily in Global Oil and North American Gas. Client hedging and trading opportunities remained steady across the metals and agriculture platforms. CFM also experienced increased customer activity in foreign exchange, interest rates and futures markets. Macquarie Energy maintained its Platts ranking of No.3 US physical gas marketer in North America and Winner of the Oil & Products House of the Year⁹.

⁶ BFS deposits exclude any Corporate/Wholesale deposit balances.

⁷ Funds on platform includes Macquarie Wrap, Vision, Equity Portfolio Services and Industry Super Funds.

⁸ Dealogic, 1H CY16 (by value and number).

⁹ Energy Risk Awards 2016.

Outlook

Macquarie currently expects the FY17 combined net profit contribution¹⁰ from operating groups to be broadly in line with FY16.

The FY17 tax rate is currently expected to be broadly in line with FY16.

Accordingly, the Group's result for FY17 is currently expected to be broadly in line with FY16.

The Group's short-term outlook remains subject to a range of challenges including:

- market conditions
- the impact of foreign exchange; and
- potential regulatory changes and tax uncertainties

Mr Moore said: "Macquarie remains well positioned to deliver superior performance in the medium-term due to its deep expertise in major markets, strength in diversity and ability to adapt its portfolio mix to changing market conditions, the ongoing benefits of continued cost initiatives, a strong and conservative balance sheet and a proven risk management framework and culture."

Highlights from the address of Chairman, Peter Warne

In providing an overview of FY16, Macquarie Group Chairman, Peter Warne, noted that notwithstanding challenging market conditions, operating income and profit continued to grow for the year to 31 March 2016. Together with the return on many years of investment across the business, the result highlighted the mix and quality of Macquarie's businesses.

Mr Warne said: "As we outlined at our full year result announcement, Macquarie reported a record profit of \$A2,063 million for the year to 31 March 2016, an increase of 29 per cent on the prior year."

"Operating income was up nine per cent to \$A10,135 million. Earnings per share was \$A6.19, an increase of 23 per cent from \$A5.02 in the prior year."

Mr Warne commented on Macquarie's sound risk culture, its commitment to achieving the highest standards of professional conduct across all operations, and effective consequence management as a key aspect of Macquarie's risk management framework and risk culture.

Mr Warne also noted the activities of Macquarie's staff and the Macquarie Group Foundation across the various communities in which it operates.

"One of the oldest and largest corporate foundations in Australia, the Macquarie Group Foundation has contributed more than \$A270 million since its establishment in 1985."

"In the year to 31 March 2016, the Foundation and Macquarie staff globally contributed close to \$A30 million in donations to more than 1,500 community organisations around the world."

"We are very proud of the commitment shown by Macquarie staff to the communities in which they live and work around the world."

The Macquarie Group Foundation 2016 Annual Review is now available on Macquarie's website at macquarie.com/foundation. The Review provides an update on the contribution Macquarie staff members are making in their communities around the world.

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¹⁰ References to FY17 net profit contribution is management accounting profit before unallocated corporate costs, profit share and income tax.